

STATE OF VERMONT
PUBLIC SERVICE BOARD

Docket No. 7187

Petition of Vermont Gas Systems, Inc. For Consent to)
Issue \$10,000,000 in Unsecured Promissory Notes)

Order entered: 7/12/2006

I. INTRODUCTION

On May 16, 2006, Vermont Gas Systems, Inc. ("Vermont Gas" or the "Company"), filed a petition with the Public Service Board ("Board"), pursuant to 30 V.S.A. § 108, seeking the Board's consent for the issuance by the Company of \$10 million in unsecured promissory notes ("Notes"). The petition was supported by the prefiled testimony and exhibits of Charles A. Farrington, Vice President of Finance and Accounting for the Company.

On June 12, 2006, the Vermont Department of Public Service ("Department") filed a letter with the Board stating that it had reviewed the Company's filings. Based on its review, the Department recommended that the Board consent to the issuance of the Notes. According to the Department, the proposed financing will have no adverse impact of the Company's financial condition. The Department also recommended that the Board approve the petition without further investigation or hearing.

On June 27, 2006, the Company filed with the Board a proposal for decision. In its transmittal letter, the Company also requested an expedited review, as the financing that is the subject of this petition is ready to close with the Company's investment bank. On June 28, the Department and Company agreed, via separately filed electronic mail, to waive their rights under 3 V.S.A. § 811 to review the proposal for decision, to file exceptions, to present briefs and oral argument regarding the petition, and to appeal the Order, provided that the Board order is substantially the same as the draft Proposed Order that the Company submitted on June 27, 2006.

Based on my review of the petition, prefiled testimony and exhibits, I recommend that the Board approve the petition without further investigation or hearing. The issuance of up to \$10,000,000 in unsecured notes will provide additional funds to finance the Company's working

capital requirements and other capital expenditures associated with the expansion of Vermont Gas' service territory.

II. FINDINGS OF FACT

Based upon the evidentiary record, I hereby report the following findings of fact to the Board in accordance with 30 V.S.A. § 8.

1. Vermont Gas is a "company" within the meaning of Section 201 of Title 30 of the Vermont Statutes Annotated, it transmits and distributes natural gas within the meaning of subsection (2) of Section 203 thereof and as such it is subject to the Board's jurisdiction. Pet. at 1.

2. The Company has significant seasonal swings in its credit requirements because of the seasonality of its revenue cycles and accounts receivable, storage of gas, and capital expenditures. Farrington pf. at 3-4.

3. The Company currently funds its credit requirements with four different credit facilities totaling \$32.5 million. Farrington pf. at 4.

4. As gas and gas-storage costs have increased over time, the Company's working capital requirements have also increased. Farrington pf. at 4.

5. In 2003, Vermont Gas started to accelerate the expansion of its distribution system to serve new customers. Expansion of the system increased the Company's capital expenditures from \$4.6 million in fiscal year 2001 to \$12.4 million in fiscal year 2005. This increase means that capital expenditures temporarily exceed the amount of cash flow generated from earnings, depreciation and existing short-term credit facilities. Farrington pf. at 4-5.

6. A portion of the Company's future capital expenditures and working capital requirements are to be financed with the proceeds from the issuance of thirty-year, unsecured, promissory notes, not to exceed \$10,000,000, collectively. The notes will be issued to One America Financial Partners, Inc., or any affiliate thereof, and carry a coupon rate of 6.44%. Farrington pf. at 5-7.

7. The proposed financing provides Vermont Gas with competitive interest rates for long-term debt and minimizes the Company's exposure to potential increases in short-term interest rates. Farrington pf. at 10.

8. The proposed financing provides Vermont Gas with a capital cushion to cover unanticipated credit requirements and a funding level that the Company should ultimately grow into. The proposed financing also avoids the need to borrow smaller amounts of additional funds in the future, which would not be cost effective; and puts in place credit facilities for which the carrying costs are relatively minimal. Farrington pf. at 5-7.

9. The issuance of the Notes is consistent with the general good of the state because the resulting proceeds will provide needed capital on favorable terms and will allow the Company to continue to provide adequate and efficient service to its customers. Petition at 1.

III. CONCLUSION

Based on the record evidence, I conclude that the proposed issuance of unsecured 30-year promissory Notes, as further described in the Company's petition, is in the public good. The proposed financing would provide the Company with the additional capital necessary to finance the continued expansion of its gas system in areas of the state that are currently unserved and its working capital requirements. As such, I recommend that the Board find the credit agreement, and the issuance of indebtedness thereunder, to be consistent with the general good of the state and issue an order to that effect.

Dated at Montpelier, Vermont, this 12 day of July, 2006.

s/Thomas S. Lyle

Thomas S. Lyle
Hearing Officer

IV. ORDER

IT IS HEREBY ORDERED, ADJUDGED AND DECREED by the Public Service Board of the State of Vermont that:

1. The findings and conclusions of the Hearing Officer are adopted.
2. Pursuant to 30 V.S.A. §108, the Board consents to and approves the issuance of up to \$10,000,000 in unsecured promissory notes, as further described in the Company's petition, and finds that the same will be consistent with the general good of the State of Vermont.
3. This Order does not constitute approval of Vermont Gas' capital structure or of any particular capital or operating expenditure that may be implemented with the proceeds from the issuance of the short-term debt contemplated in the Petition in this docket. Nothing in this approval shall preclude the Department or any other party, or the Board, from reviewing or challenging such expenditures of Vermont Gas, its resulting capital structure and/or its common stock dividend in any future proceeding.

Dated at Montpelier, Vermont, this 12th day of July, 2006.

<u>s/James Volz</u>)	
)	
)	
<u>s/David C. Coen</u>)	
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<u>s/John D. Burke</u>)	

PUBLIC SERVICE
BOARD
OF VERMONT

OFFICE OF THE CLERK

FILED: July 12, 2006

ATTEST: s/Susan M. Hudson
Clerk of the Board

NOTICE TO READERS: This decision is subject to revision of technical errors. Readers are requested to notify the Clerk of the Board (by e-mail, telephone, or in writing) of any apparent errors, in order that any necessary corrections may be made. (E-mail address: Clerk@psb.state.vt.us)

Appeal of this decision to the Supreme Court of Vermont must be filed with the Clerk of the Board within thirty days. Appeal will not stay the effect of this Order, absent further Order by this Board or appropriate action by the Supreme Court of Vermont. Motions for reconsideration or stay, if any, must be filed with the Clerk of the Board within ten days of the date of this decision and order.